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# THE NATIONAL DEBT OF JAPAN.

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IN the year 1868 a great event happened in Japan. The feudal system which had existed so long in the country was abolished, and the Emperor was restored to his hereditary and rightful authority. The country was thus united again under one central government.

The task which lay before the new régime was not an easy one. There were many innovations to be made, many improvements after the European style to be introduced, many abuses to be eradicated. Both civil and military administration had to be re-organized and the national finance and currency rearranged. To defray the expenses incidental to these undertakings, the government had recourse to public loans. Thus were originated the Old Loan, the New Loan, the Voluntary Capitalized Pension Bonds and the Pension Bonds. Since then, various causes—such as natural calamities, war, rebellion and disturbances, as well as new enterprises and improvements—have led to successive new loans.

Prior to the Restoration there existed in the country several hundred feudal princes, who enjoyed absolute power over their provinces. The systems of administration were more or less irregular and differed from one another. This was especially noticeable in the matter of finance. When a prince had a deficit and could not meet it in the ordinary way, he usually borrowed the money required from wealthy merchants and gave them notes in exchange. These notes were legal tender only in the respective provinces where they were issued, and made a considerable aggregate amount. Soon after the Restoration, the imperial government took over all liabilities contracted by the princes, and pro-

mulgated "the New and Old Loan Act" of 1873. The bonds thus authorized were given to those merchants who had advanced money to the princes. The bonds carried interest at four per cent., and were redeemable by twenty-two annual drawings, commencing in the fourth year of their issue.

The total national debt from the Restoration till the present day is as follows:

### I. DEBTS ALREADY REDEEMED.

DESIGNATION.	AMOUNT.	RATE OF INTEREST.
Voluntary Capitalized Pension Bonds..	\$8,282,925	8 per cent.
Shinto Priest Pension Bonds.....	167,025	8 "
Nine per cent. Foreign Loan .....	4,880,000	9 "
Seven per cent. Foreign Loan.....	11,712,000	7 "
Currency Redemption Bonds.....	7,299,575	6 "
Civil War Loan.....	7,500,000	5—7½ "
Industry Bonds .....	6,250,000	6 "
Nakasendo Railway Bonds .....	10,000,000	7 "
Supplementary Railway Bonds.....	1,000,000	5 "
Total.....	\$57,091,525	

### II. DEBTS STILL OUTSTANDING.

DESIGNATION.	AMOUNT.	RATE OF INTEREST.
Old Loan .....	\$2,414,000	5 per cent.
Pension Bonds .....	12,714,325	5 "
Naval Bonds .....	4,398,300	5 "
Consolidation Bonds .....	84,346,800	5 "
Currency Redemption Loan.....	11,000,000	0 "
War Bonds .....	58,288,225	5 "
Industry Bonds .....	10,775,650	5 "
Railway Bonds .....	17,021,350	5 "
Hokkaido Railway Bonds.....	1,709,975	5 "
Foreign Loan of 1899.....	48,815,006	4 "
Total.....	\$251,483,625	

### I. DEBTS ALREADY REDEEMED.

*I. Voluntary Capitalized Pension Bonds.*—The object of these bonds was to help the princes and their former retainers to gain the means of livelihood by enabling them to engage in agricultural, industrial, and commercial pursuits. Many of them were in need of capital to start in different enterprises, and were willing to obtain it by surrendering their hereditary pensions. In accordance with their desire, the government proposed to convert the pensions into bonds. The number of persons who availed themselves of this plan was 135,883, and the bonds given amounted to \$8,282,925. The principal of the bonds was to be paid off by annual drawings, commencing in the third year. The redemption began in 1876, and was completed in 1883.

2. *Shinto Priest Pension Bonds*.—In former times, the priests lived on the income derived from landed property granted to them either by the imperial court or by feudal princes. On the Restoration, however, all these properties were taken up by the government, a measure which threw many priests into idleness and poverty. It was with the object of providing these priests with the means of livelihood that the bonds were authorized and issued. The term of redemption and the rate of interest were the same as in the case of the Voluntary Capitalized Pension Bonds. The redemption was consummated in 1886.

3. *Nine per cent. Foreign Loan*.—This loan, the first ever raised by Japan in a foreign country, was negotiated in London in 1869, for the purpose of developing the national resources by facilitating means of communication and transportation within the Empire. The total amount was £1,000,000, and the issue price was £98 for every £100 bond. The principal was to remain unpaid for three years, and then to be redeemed in ten years by annual drawings. By the aid of this loan the first railway was built and many improvements were carried out. The loan was paid off in 1882 as originally arranged.

4. *Seven per cent. Foreign Loan*.—The object of this loan was to furnish funds to those feudal princes and their followers who wished to start certain enterprises of public utility. The loan was also raised in London, and was negotiated by the imperial government directly with some banks in London, which formed a syndicate to take up the whole sum. The financial credit of Japan in those days did not stand high in foreign markets; yet, in spite of numerous objections and difficulties which had to be overcome, the loan proved a great success. The total sum required was £2,400,000. The issue price was £92 10s. for every £100 bond. The principal was to be paid off by annual drawings in twenty-five years after the date of issue. The amount subscribed reached £9,500,000. The sum of £216,000 was to be paid annually for principal and interest, and the amount of interest saved on the redeemed principal was to be added to the amount for the reduction of the outstanding principal. In this way the whole was redeemed in 1897.

5. *Currency Redemption Bonds*.—The object of these bonds was to redeem and cancel the new paper money issued after the Restoration. The bonds were either registered or unregistered.

The operation was successfully carried out, and the paper money cancelled amounted to \$7,299,575. The principal of the registered bonds was redeemable in twelve years, and that of the unregistered bonds in thirty years. When, however, the Consolidation Bonds were issued, the outstanding amount of the bonds was exchanged for these new bonds at the request of the holders.

6. *Civil War Loan*.—This loan was contracted with the Fifteenth National Bank to defray the expenses incurred in suppressing the rebellion in the southwestern territories in 1877. The disturbance lasted more than seven months, and seventy thousand soldiers were engaged in the fighting. Altogether, it was estimated that the incidental outlay aggregated about \$21,000,000. Such an amount could not be defrayed out of the ordinary income, and recourse was had to other expedients. Just at this time different national banks were being established, and one of them, the Fifteenth National Bank, was willing to provide money. The government finally resolved to borrow \$7,500,000 at interest of five per cent. per annum. In 1883, \$2,500,000 were repaid; but, in consideration of the great service rendered by the bank at a critical moment, the rate of interest for the remaining amount was raised to seven and a half per cent. per annum. The principal was repaid in three instalments, namely, \$1,000,000 in 1895, \$2,000,000 in 1896, and the balance in 1897.

7. *Industry Bonds*.—This loan was raised from the general public, and was for the amount of \$6,250,000. The issue price was fixed at eighty yen (\$40) for every 100 yen (\$50) bond, the rate of interest being six per cent. per annum. This being the first attempt on the part of the government to raise an internal loan from the general public, the Finance Department was rather anxious as to its results. On the closing day of the subscription, however, it was found that the total sum subscribed had reached \$12,387,625, nearly double the amount of the loan to be raised. The principal of the loan was to be redeemed by drawings within twenty-three years; but, when the Consolidation Bonds were issued, the holders of Industry Bonds voluntarily exchanged them for the new bonds.

8. *Nakasendo Railway Bonds*.—The object of this loan was to provide funds with which to construct a railway along the Nakasendo, to connect the two great cities of the Empire, Tokio

and Kioto. The total amount of the bonds issued was not to exceed \$10,000,000. This loan was to be issued at ninety yen (\$45) for every 100 yen (\$50) bond, and the rate of interest was seven per cent. per annum. The loan was raised from the general public, and was the first public loan to which foreigners were allowed to subscribe. A careful survey showed that the construction of the Nakasendo line would be very difficult. Moreover, the primary object being to connect Tokio and Kioto, it was decided that the railway along the Tokaido would do just as well as the Nakasendo line, and the fund was appropriated to that purpose. Some years afterwards the "Consolidation Bonds Act" was promulgated, and in the course of a few years the bonds were converted into the Consolidation Bonds.

9. *Supplementary Railway Bonds*.—This loan was raised for the purpose of meeting a deficiency in the Tokaido Railway construction fund, caused by the addition of branch lines. The principle adopted in this case was to sell the bonds to the highest bidders among the general public. The total amount of the issue and the lowest issue price were announced by the government, and the bonds were allotted to subscribers, beginning with the highest bidders, until the total amount required was obtained. The total subscription reached \$2,721,175, thus surpassing the amount to be issued by \$1,721,175. When the Consolidation Bonds were issued, these bonds were also converted into them.

## II. DEBTS STILL OUTSTANDING.

1. *Old Loan*.—This loan was raised with the same object as the New Loan. The bonds are terminable annuity bonds. The present outstanding sum is \$2,414,000, and it expires in 1921.

2. *Pension Bonds*.—These bonds were issued for the purpose of converting the hereditary pensions of princes, their retainers and common people, and also the pension given them in recognition of special merit. They were of four classes—namely, bonds bearing interest at ten per cent., seven per cent., six per cent., and five per cent. per annum, respectively. The principal of the bonds was to be redeemed by annual drawings, commencing in 1882. In 1886, a part of the fund raised by the Nakasendo Railway Bonds, which was not immediately needed for the work, was used for the immediate redemption of the bonds carrying a higher rate of interest. The money thus paid out was subsequently refunded by regular annual appropriations for the ser-

vice of the national debt. In this way, the work of redemption was vigorously pushed on; so that the ten per cent. bonds were entirely paid off in 1887, the seven per cent. bonds in 1891, and the six per cent. bonds in 1893. The outstanding amount of the five per cent. bonds is 25,428,650 yen (\$12,714,325).

3. *Naval Bonds*.—For the purpose of increasing naval efficiency, a sum of \$13,320,000 had been appropriated, to be paid off in eight fiscal years, 1883-1891. To meet such an extraordinary outlay, however, from the ordinary revenue was very difficult.

Accordingly, it was decided to issue bonds to an amount not exceeding \$8,500,000. The bonds were unregistered, bearing interest at the rate of five per cent. per annum. The allotment was made to the highest bidders, and the actual receipt by the government was \$8,622,082 for the face value of \$8,500,000. The principal of the bonds is to be repaid by drawings which take place at the discretion of the government within thirty years. The outstanding sum is \$4,398,300.

4. *Consolidation Bonds*.—Consolidation Bonds or consols were to be issued from time to time, at the discretion of the Finance Minister, when the state of the money market was favorable, in order to convert and consolidate all internal debts bearing interest over six per cent. per annum. The total amount of the bonds was not to exceed \$87,500,000.

The public debts negotiated before 1886 had been governed by various acts and regulations, and this had resulted in much variety in names, in rates of interest, in terms of redemption, and in methods of management. This had caused great confusion; and the expediency of consolidating these various debts into one became apparent. Meanwhile, in January, 1886, specie payment was resumed; and general prices and the rate of interest had been considerably changed, owing partly to the development of credit institutions, but chiefly to the improved currency system, which thus made possible not only the consolidation of the national debt, but also conversion on a large scale. The government was not slow to take advantage of this opportunity. In October, 1886, the "Consolidation Bonds Act" was proclaimed, and thus a new era was opened in the management of the national debt. The most important provisions in the act are the following: the rate of interest of the bonds is to be five per cent. per annum; the

bonds are unregistered, but may be registered at the request of the subscribers or the holders; the principal of the bonds is to remain unpaid for five years, and is to be paid by drawings within fifty years from the sixth year of the issue. By successive operations, all bonds bearing an interest over six per cent. per annum have been converted into these bonds.

5. *Currency Redemption Loan*.—This loan was raised with the object of withdrawing the government paper-money. In 1890, the amount of government paper-money in circulation was 40,065,256 yen (\$20,032,628), of which 32,000,000 yen (\$16,000,000) were the notes with denomination over, and 8,065,256 yen (\$4,032,628) the notes with denomination below, one yen; and 10,000,000 yen (\$5,000,000) in silver was held as the reserve for the former. The government then made a contract with the Bank of Japan, which advanced 22,000,000 yen (\$11,000,000), thus making the total reserve 32,000,000 yen (\$16,000,000). For the withdrawal of the latter notes the government provided \$500,000 annually in the budget. In this manner, the redemption of the government paper-money was consummated. This loan bears no interest, and is to be repaid within twenty years, at the option of the government.

6. *War Bonds*.—These bonds were issued to meet the expenses incidental to the war with China in 1894-95. In 1894, Parliament was summoned to assemble at Hiroshima, the temporary residence of the Emperor, and a bill authorizing the government to raise a war loan, not exceeding \$75,000,000, was passed. In the session of 1895, another bill authorizing the government to raise the second war loan of \$50,000,000 was passed. Thus the authorized amount of the war loan was \$125,000,000 in all, although the sum of the bonds actually issued was far below that amount. The rate of interest and the term of redemption, etc., are the same as those for the Consolidation Bonds. In the first issue of the bonds for 30,000,000 yen (\$15,000,000), the subscribed sum was 47,000,000 yen (\$23,500,000), the highest price offered being 114 yen for 100-yen bond. Each subsequent issue of the bonds resulted satisfactorily.

7. *Industry Bonds, Railway Bonds, Hokkaido Railway Bonds, and the Foreign Loan of 1899*.—In 1892, the "Railway Construction Act" was promulgated, and the law provides that the government may raise a loan of \$30,000,000 to meet the expenses of



railway construction within the first period (1892-1903). Under this provision the sum of 34,000,000 yen (\$17,000,000) has been raised.

After the war with China, commerce and industry suddenly expanded, and the construction and improvement of railways, the establishment of steel works, the extension of telephone service, etc., became necessary. As to the Industry Loan, the government raised \$10,775,650 in the home market, and £10,000,000 in London. The latter is known as the Imperial Japanese government four per cent. sterling loan of 1899.

The Hokkaido (northern provinces of Japan) being still a thinly populated and undeveloped colony, an improvement in the means of communication with it is considered necessary. For this purpose an issue of Hokkaido Railway bonds for \$16,500,000 was authorized, of which \$1,709,975 were already raised. The rate of interest, and the term of redemption, etc., of these bonds are the same as those for the consolidation bonds.

*Conclusion.*—The present outstanding debts of Japan amount to 502,967,249 yen (\$251,483,625), of which 191,143,650 yen (\$95,571,825) are devoted to remunerative objects. The population being forty-four millions, the amount of non-remunerative public debts per head is little more than seven yen (\$3½). The system of currency is based on the gold standard. Imports and exports are increasing year by year. The total imports and exports, which were 143,494,000 yen (\$71,747,000) in 1891, rose to 435,330,000 yen (\$217,665,000) in 1899. Wine, spirits, tobacco, etc., so heavily taxed in other countries, are still subjected to a very light tax in Japan; while silk, tea, beer, and many other articles are wholly exempt from taxation. Thus it will be seen that the government still has many untouched sources of revenue; and, judging from the figures given above, the country can easily bear, if needful, a much heavier public debt than it does at present.

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